MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210 & TERM ID 2215)

BFN2044 – BANK MANAGEMENT

(All sections / Groups)

15 FEBRUARY 2023
9.00 am – 11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 2 **(TWO)** pages excluding cover page.
2. Answer **ALL FOUR** questions in the answer booklet provided.
3. Marks allocations are shown at the end of each question.

Question 1 (25 marks)

(a) As an analyst, you are given the Dynamic Bank's expected stream of dividends over the next three years as follows:

Year	Expected Dividend Per Share (RM)
2023	2.25
2024	2.50
2025	2.75

The bank's stock can be sold for RM17 at the end of the three years. Based on the information given, calculate the estimated intrinsic value (Po) for this stock if the discount rate is 12 percent?

(10 marks)

(b) Supposed Noble Bank is expected to pay a dividend of RM3.50 per share at the end of the year and its stock dividends are expected to grow 8 percent a year indefinitely into the future. If the appropriate discount rate applied to the bank's expected dividend stream is 12 percent, calculate the current value for Noble Bank's stock? Can you use the same evaluation in question (b)? Why?

(6 marks)

(c) Based on the information given in the following table, calculate Return on Asset for each of the banks:

Name of Banks	Total Equity Capital	Total Assets	Return on Equity
AXXON Bank	RM14.8 million	RM180.5 million	3.30 %
BARNES Bank	RM11.7 million	RM125.0 million	4.40 %
CHASE Bank	RM 13 million	RM104 million	2.10%

(9 marks)

Question 2 (25 marks)

(a) When banks managed their investments portfolio, they will employ five (5) maturity strategies. Explain with a diagram the best maturity strategy for a bank and the reasons for your selection. Describe the advantages for the bank in employing this strategy.

(13 marks)

(b) A bond currently sells for RM920 based on a par value of RM1,000 and promises RM90 in coupon payment for three years before being retired. Yields to maturity on comparable-quality securities are currently at 12 percent.

i) Based on the above information, calculate the bond's duration.

(8 marks)

ii) Suppose interest rates in the market fall from 12 percent to 10 percent. Calculate the approximate percent change in the bond's price.

(4 marks)

Continued...

Question 3 (25 marks)

(a) Suppose that AERO Bank Berhad estimates its total deposits and total loans for the next six months in Ringgit millions to be as the following:

Estimated Total Deposits (RM millions)	Estimated Total Loans (RM millions)
115	87
132	95
121	102
147	113
151	101
139	124

Based on the above information, calculate:

(i) The estimated change in deposit for the next six months. (5 marks)

(ii) The estimated change in loans for the next six months. (5 marks)

(iii) The estimated liquidity deficit or surplus for this bank. (5 marks)

(b) FANNY Bank received a loan application from Intec Inc. together with the financial statements below. Based on the information below, calculate FOUR (4) of the Liquidity Ratios and Profitability Ratios each for Intec Inc. Then, briefly explain whether FANNY Bank should approve or decline the loan requested by Intec Inc.

Business Assets (RM million)		**Annual Revenue and Expense Items (RM million)**	
Cash account	RM70	Net sales	RM600
Accounts receivable	155	Cost of goods sold	445
Inventories	128	Wages and salaries	52
Fixed assets	286	Interest expense	28
Miscellaneous assets	96	Overhead expenses	29
	735	Depreciation expenses	12
Liabilities and Equity		Selling, administrative, and other expenses	28
Short-term debt:	108	Before-tax net income	6
Accounts payable	127	Taxes owed	1
Notes payable	325	After-tax net income	5
Long-term debt (bonds)	15		
Equity capital	160		
	735		

(10 marks)

Question 4 (25 marks)

Defined and explain the differences between 6 Cs of credit and CAMELS rating.

(25 marks)

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